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January 30, 2007

Ms. Susan M. White  
Mine Program Coordinator  
Department of Natural Resources  
Division of Oil, Gas and Mining  
1594 West Temple, Suite 1210  
PO Box 145801  
Salt Lake City, UT 84114-5801

Re: 2006 Annual Reports for Tony M/Lucky Strike, Frank M and Velvet Mines

Dear Ms. White:

Please find enclosed the completed 2006 annual reports for the Tony M/Lucky Strike Mine Permit No. M170001, Frank M Mine Permit No. S170017 and Velvet Mine Permit No. M370040. The status for the three mine sites is reclaimed awaiting release.

Should you have any questions I can be contacted at (307) 856-9271.

Sincerely,  
U.S. Energy Corp.

A handwritten signature in blue ink, appearing to read 'Fred Craft'.

Fred Craft  
VP Engineering

Enclosures (6)

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FEB 01 2007

DIV. OF OIL, GAS & MINING

STATE OF UTAH  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL, GAS AND MINING  
1594 West North Temple - Suite 1210  
Box 145801  
Salt Lake City, Utah 84114-5801  
Telephone: (801) 538-5291  
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LARGE MINING OPERATIONS 2006 PROGRESS REPORT  
January 1, 2006 to December 31, 2006

The information required in this form are based on provisions of the Mined Land Reclamation Act, Title 40-8, and the rules as under the Utah Minerals Regulatory Program.

1. Mine Permit Number: M170001
2. Mine Name: Tony M/ Lucky Strike
3. Name of Operator/Permittee: U.S. Energy Corp

Note: If Operator's address, company representative or phone number have changed, please provide a replacement page to the Notice of Intention.

4. Mine Location: Section 16, T 35S, R 11E, Garfield County, UT

5. Report the gross amount of ore mined and waste moved, as well as the arrangement, positioning, or distribution of the material:

Gross Ore Mined 0 Tons, or 0 yd<sup>3</sup>  
Waste Material Moved 0 Tons, or 0 yd<sup>3</sup>  
New Disturbance 0 Acres during 2006  
Area Reclaimed 0 Acres during 2006  
Total Disturbed Area 334 Acres\*  
Was the ore shipped off site? If not, where is the ore located? N/A

Where is the waste located? N/A

\*Total life of mine disturbance to the end of 2006.

6. Briefly describe the reclamation work performed during the past year. A map showing reclaimed areas and dates is suggested. (Submit form MR-SITE for an application for full or partial bond/site release).

Inspect as needed during vegetation growth

7. Include an updated map depicting surface disturbance and reclamation performed during the year, prepared in accordance with Rule R647-4-105.

I hereby certify, under penalties of law, the information provided in this report is true and correct to the best of my knowledge and belief.

Name (Typed or Print): Fred Croft  
Title of Operator: V.P. Engr.  
Signature of Operator: [Signature]  
Date: 1/30/07

Reviewed  
2/26/07  
[Signature]

Area  
discrepancy  
noted.

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